

2008 Ontario Budget

March 25, 2008

:: Fiscal Outlook

The government's prudent approach to managing the Province's finances continues to produce results. It has eliminated the \$5.5 billion deficit it inherited in 2003-04 and is now on track to achieve its third consecutive surplus. A \$0.6 billion surplus is forecasted for 2007-08, representing an in-year improvement of \$1.0 billion from the 2007 Budget Plan.

The interim outlook indicates that revenue for 2007-08 is estimated to be \$96.6 billion, a 5.5 per cent increase over the 2007 Budget forecast. This is mainly due to stronger economic growth and higher revenues from processing past year tax returns. Total expense is estimated to be \$96.0 billion, 5.3 per cent higher than the 2007 Budget Plan. This increase primarily reflects government investments that strengthen Ontario's economic growth through its five-point economic plan.

The fiscal plan also includes prudence in the form of reserves of \$0.8 billion in 2008-09, \$1.0 billion in 2009-10 and \$1.2 billion in 2010-11. The Province remains resilient and is on track to post six consecutive balanced budgets between 2005-06 and 2010-11.

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Medium-Term Fiscal Plan and Outlook (\$ Billions)	Interim 2007-08	Plan 2008-09	Outlook	
			2009-10	2010-11
Revenue	96.6	96.9	100.6	103.8
Expense				
Programs	87.0	87.3	90.6	93.4
Interest on Debt ¹	9.0	8.9	9.0	9.1
Total Expense	96.0	96.2	99.6	102.6
Reserve	—	0.8	1.0	1.2
Surplus/(Deficit)	0.6	0.0	0.0	0.0
Investment in Capital Assets	3.6	4.9	6.0	7.1
Net Debt ²	142.8	146.2	150.6	156.1
Accumulated Deficit ²	106.2	106.2	106.2	106.2

¹ Interest on debt expense increases by \$0.2 billion between 2008-09 and 2010-2011 due to additional borrowings to finance investments in capital assets.

² Net debt is calculated as the difference between liabilities and financial assets. The annual change in net debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges.

Note: Numbers may not add due to rounding.

:: Economic Outlook

Ontario's economy has been strong and resilient in recent years, with higher-than-forecast employment growth, and robust consumer and business investment spending. Modest economic growth is anticipated in 2008, as the Ontario economy faces a slowing U.S. economy along with the ongoing challenges related to high oil prices and the strong Canadian dollar.

The Ministry of Finance is projecting real GDP growth of 1.1 per cent in 2008, 2.1 per cent in 2009 and 2.7 per cent in 2010. Ontario real GDP rose by an estimated 2.1 per cent in 2007, 0.5 percentage points above the Ministry's 2007 Budget forecast.

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Economic Outlook

Ontario Economic Outlook (Per Cent)	2003	2004	2005	2006	2007	2008 _p	2009 _p	2010 _p
Real GDP Growth	1.4	2.5	2.9	2.1	2.1 _e	1.1	2.1	2.7
Nominal GDP Growth	3.2	4.8	3.9	3.9	5.1 _e	2.8	3.9	4.6
Employment Growth	3.0	1.7	1.3	1.5	1.6	1.0	1.1	1.3
CPI Inflation	2.7	1.9	2.2	1.8	1.8	1.4	1.9	2.0

e = estimate; p = Ministry of Finance planning projection. Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's Five-Point Economic Plan

The government is committed to enhance Ontario's economic competitiveness through its five-point economic plan:

- Investing in Skills and Knowledge — A new \$1.5 billion Skills to Jobs Action Plan that helps workers train for new careers and advances Ontario's competitive edge in skills and postsecondary education.
- Investing in Infrastructure for a Stronger Ontario — new investments of \$1 billion in municipal infrastructure in 2007–08.
- Lowering Business Costs — \$750 million in tax reductions to help businesses modernize, primarily benefiting the manufacturing and resource sectors, over four years starting in 2007–2008.
 - proposed elimination the Capital Tax retroactive to January 1, 2007, for businesses primarily engaged in manufacturing and resource activities
 - extension of an accelerated Capital Cost Allowance (CCA) rate for manufacturing and processing machinery and equipment investments made before 2012 and paralleling other CCA measures announced in the 2008 federal budget
 - accelerating Business Education Tax (BET) rate cuts for northern businesses
 - proposed a ten year Ontario income tax exemption for new corporations that commercialize intellectual property developed by qualifying Canadian universities, colleges or research institutes.

These new measures build on the \$1.1 billion in business tax reductions over three years announced in the 2007 Economic and Fiscal Review.

- Strengthening the Environment for Innovation — nearly \$300 million in new investments to build on and support the province's innovation strengths.
- Forming Key Partnerships to Strengthen Ontario — moving forward with major new economic development initiatives such as the Next Generation of Jobs Fund, Investment Ontario Inc. and sector-specific support.

Borrowing Update

The interim long-term public borrowing requirement for 2007-08 is \$18.0 billion, down \$0.8 billion from the \$18.8 billion estimated in the 2007 Budget Plan. This decline reflects an improvement in the Province's fiscal position.

2007–08 Borrowing Program (\$ Billions)	Budget Plan	Interim	In-Year Change
Deficit/(Surplus)	0.4	(0.6)	(1.0)
Non-Cash Adjustments	(0.5)	(0.3)	0.1
Investment in Capital Assets	3.3	3.6	0.3
Net Loans/Investments	1.2	2.3	1.1
Debt Maturities	14.4	13.5	(0.9)
Debt Redemptions	0.9	1.3	0.4
Total Funding Requirement	19.7	19.8	0.0
Canada Pension Plan Borrowing	(0.4)	(0.3)	0.2
Decrease/(Increase) in Short-Term Borrowing	(0.5)	(1.4)	(0.8)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(0.2)	(0.2)
Total Long-Term Public Borrowing Requirement	18.8	18.0	(0.8)

Note: Numbers may not add due to rounding.

- Key contributors to the decline in the total long-term public borrowing requirement include a \$1 billion improvement in the fiscal position and a \$0.9 billion reduction in debt maturities. The decline is partially offset by a \$1.1 billion increase in net loans/investments, of which \$0.8 billion is attributable to loans to Ontario Power Generation Inc. (OPG). The total long-term public borrowing requirement was further reduced through a \$0.8 billion increase in short-term borrowing.
- The Province currently holds about \$645 million of asset-backed commercial paper (ABCP) in its investment portfolio. This is down by \$75 million from the \$720 million reported in the 2007 Economic Outlook and Fiscal Review, as the \$75 million holding in Skeena Trust was repaid on December 20, 2007, when that trust was redeemed.

Medium-Term Borrowing Outlook

Province and OEFC (\$ Billions)	2008-09	2009-10	2010-11
Deficit/(Surplus)	0.0	0.0	0.0
Non-Cash Adjustments	(0.9)	(1.7)	(1.9)
Investment in Capital Assets	4.9	6.0	7.1
Net Loans/Investments	1.3	0.8	0.3
Debt Maturities:			
Currently Outstanding	20.5	14.6	10.4
Incremental Impact of Future Financing	0.0	0.0	1.9
Debt Redemptions	1.0	1.0	1.0
Total Funding Requirement	26.9	20.6	18.9
Canada Pension Plan Borrowing	(0.6)	(0.7)	0.0
Decrease/(Increase) in Short-Term Borrowing	(2.0)	0.9	0.4
Increase/(Decrease) in Cash and Cash Equivalents	0.0	0.0	0.0
Total Long-Term Public Borrowing Requirement	24.3	20.9	19.4

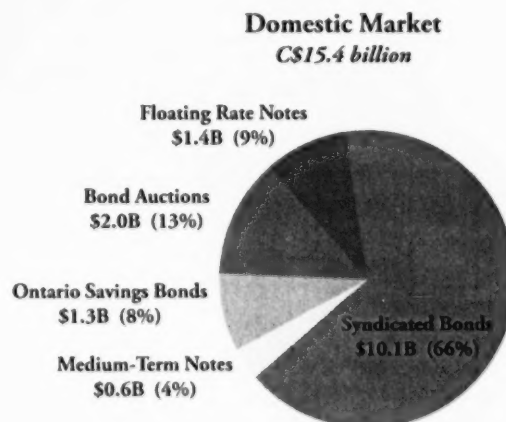
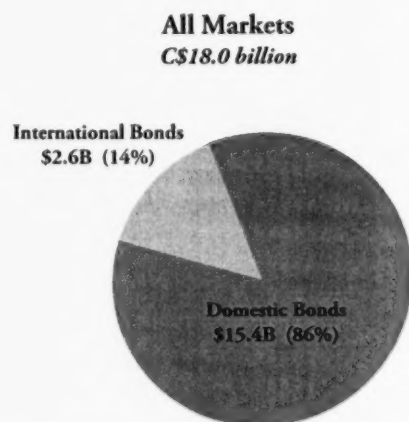
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Refinancing maturing debt and funding capital investments are the primary components of the medium-term borrowing outlook. Debt maturities for the Province and the OEFC are projected at \$20.5 billion in 2008-09, \$14.6 billion in 2009-10 and \$12.3 billion in 2010-11.

Borrowing Approach

In 2007-08, the OFA raised \$18.0 billion on behalf of the Province and OEFC. The OFA maintained a flexible approach to borrowing, monitoring both domestic and international capital markets to minimize debt service costs and diversify the borrowing program. The Province typically targets 25 per cent of the borrowing from international markets. Approximately \$2.6 billion, or 14 per cent of the borrowing program was raised from international markets as borrowing costs have generally been much higher abroad. While the majority of the borrowing was completed in the domestic market, the Province successfully accessed the international capital markets through two U.S. dollar Global bonds.

Approximately \$15.4 billion, or 86 per cent, of the borrowing was completed in the domestic market, through a number of instruments, including syndicated bonds, bond auctions, floating rate notes, Ontario Savings Bonds, and medium-term notes.



Credit rating agencies continue to rate Ontario's debt highly (Aa1 Moody's/AA S&P; DBRS) due to its strong fiscal performance.

Medium-Term Borrowing Outlook

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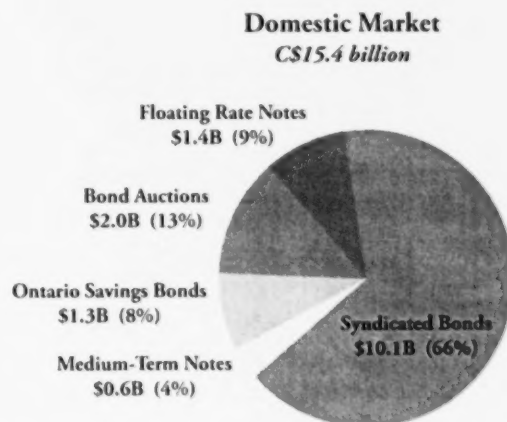
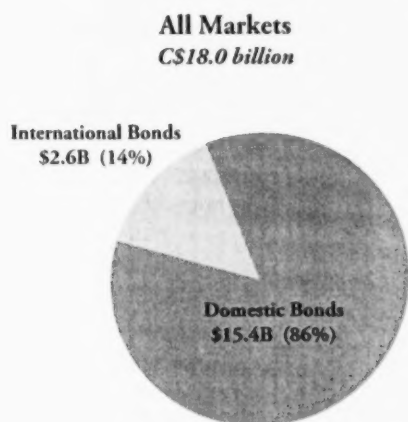
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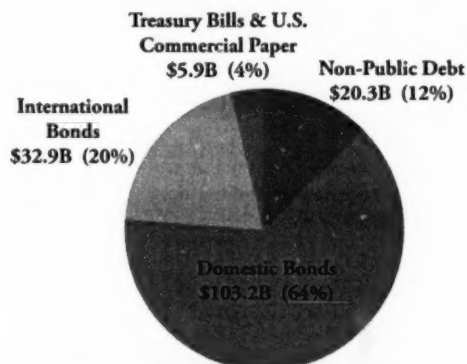
Debt Portfolio

- Total debt of \$162.3 billion is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals \$142.0 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies.
- Ontario also has \$20.3 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB).

International Bonds issued in the following currencies:

- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. Sterling
- South African rand
- Hong Kong dollar
- New Turkish lira

C\$162.3 billion

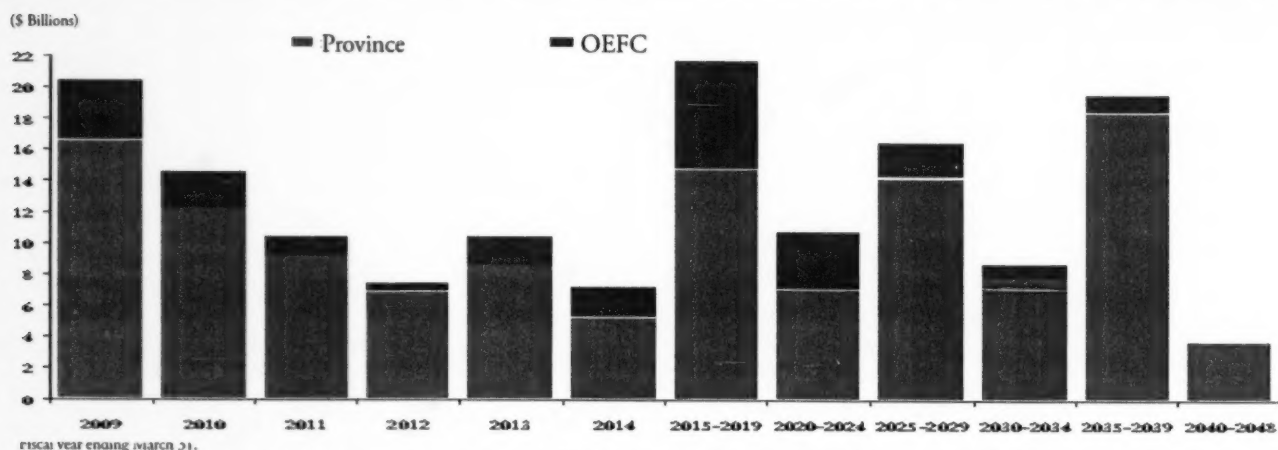


Debt Statistics

Debt		Risk Exposure (% of debt)	Current	Policy Limit
Total Debt	\$162.3 billion	Province		
Net Debt	\$142.8 billion	Net Interest Rate Resetting Exposure	14.8	35.0
Accumulated deficit	\$106.2 billion	Foreign Exchange Exposure	0.5	5.0
Net Debt/GDP	24.4 %	OEFC		
Accumulated deficit/GDP	18.1 %	Net Interest Rate Resetting Exposure	23.4	35.0
Debt Statistics		Foreign Exchange Exposure	0.0	5.0
Percentage Publicly Held	87.5 %			
Percentage Issued in Canadian Dollars	84.6 %			
Effective Interest Rate (Weighted Average)	5.80 %			

Total debt represents consolidated non-public and publicly held debt. Net debt represents the difference between total liabilities and total financial assets.

Debt Maturities



Excludes short-term debt and other liabilities and the incremental impact of future financing. Assumes issues with options will be retired at the earliest possible date.

The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

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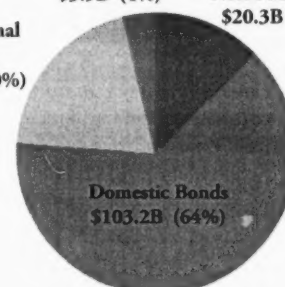
- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. Sterling
- South African rand
- Hong Kong dollar
- New Turkish lira

C\$162.3 billion

Treasury Bills & U.S. Commercial Paper
\$5.9B (4%)

Non-Public Debt
\$20.3B (12%)

International Bonds
\$32.9B (20%)

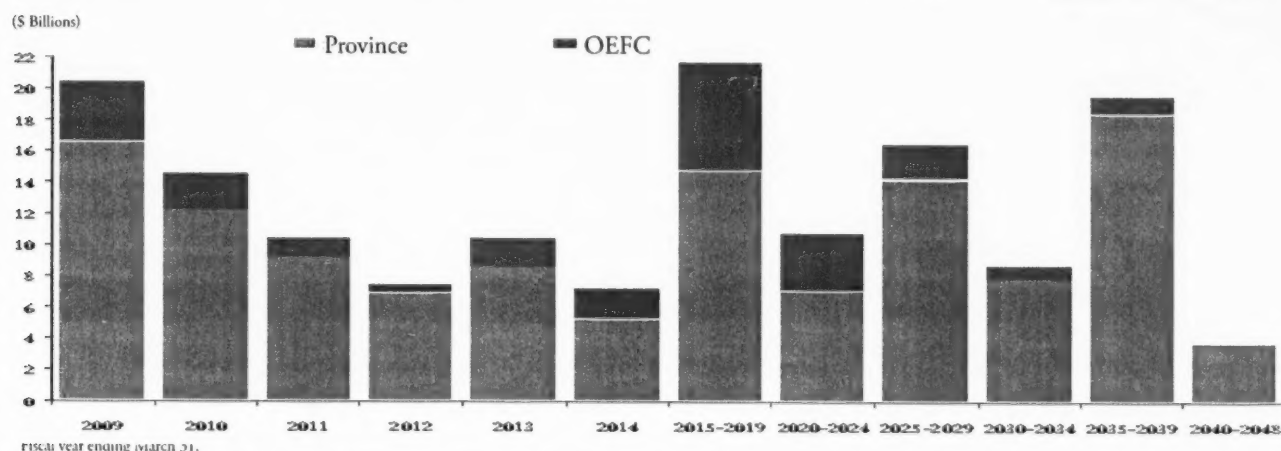


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